LIONTRUST

GLOBAL EQUITY

Liontrust Latin America Fund

Q4 2022 review

Fund manager: Thomas Smith, assisted by Ewan Thompson

The Liontrust Latin America Fund returned -3.0% during the quarter, compared with a return of -1.9% for the MSCI EM Latin America Index and the IA Latin America sector return of -2.3% (both comparator benchmarks)*.

Latin American equity markets posted a small decline during the fourth quarter but continued their outperformance over both emerging and developed markets. The region had a strong 2022 despite the waves of negative news flow battering global markets, ranging from persistent inflation and a sharp hawkish turn from global central banks, to the war in Ukraine, and the headwinds in China from zero covid policies and the significant slowdown in the property sector. For the year as a whole, the MSCI Latin America Index returned +22.6% (GBP) compared with -10.0% for emerging markets and -8% for developed markets.

In the face of a much more hawkish US Federal Reserve, sharply higher yields and a dollar hitting twenty year highs, many emerging markets found themselves battling weaker currencies with their central banks playing catch up. However, Latin American central banks acted early and robustly to raise interest rates to combat rising inflation. This has meant that some of the very few currencies to have appreciated against the dollar this year can be found in the region – the Brazilian real, Mexican peso and Peruvian sol have all gained around 5% this year. It has also allowed for an earlier peak in inflation – Brazil's CPI peaked at 12% in April and has already fallen back below 6%. Having been one of the world's first central banks to start raising interest rates back in March 2021 (rising from 2% to 13.75% since then) they could now be one of the first to embark on an easing cycle in 2023.

The region was already benefitting from high commodity prices through 2020 and 2021 and this trend was reinforced by the Russia – Ukraine conflict. Countries in the region have seen a sharp improvement in their terms of trade (the price of exports relative to imports) and with limited economic ties to Russia have seen minimal disruption. The region's commodity exposure is broad ranging from oil exporters (Brazil and Colombia) to exporters of industrial and precious metals (Brazil, Chile, Mexico, Peru), and soft commodities and agricultural products (Argentina, Brazil, Chile, Mexico). Economic growth forecasts for 2022 have been consistently raised over the course of the year.

Looking ahead to 2023, the prospects for the global economy and the possibility of recession will be important factors to watch. However, with China now firmly set on a path to relaxing its zero Covid measures and reopening its economy, this could provide a much needed boost to global demand which would benefit Latin America's exporters.

Arguably though, the most important drivers next year will be more domestic in nature. President Lula took office in Brazil on January 1st and whether he repeats previous mistakes made by his leftist

Workers' Party or governs in a more pragmatic, fiscally responsible way will ultimately determine the returns in Brazilian equities in the coming years. A pragmatic Lula with a new robust fiscal framework delivered early in his term could pave the way for a stronger currency, lower inflation and interest rates, a recovery in investment and stronger economic growth.

In Mexico, the key trend to watch will be the evolution of nearshoring. Mexico's competitive advantages in manufacturing have been a tailwind for years already, but this has been further reinforced by trade wars and geopolitical tensions, as well as the supply chain disruptions caused by the pandemic. There are clear beneficiaries in the manufacturing sector and related industries, but the economic benefits will be felt much more broadly than this. Further ahead into 2024 and a new president may also be able to reignite the animal spirits in Mexico that have been dormant throughout AMLO's term as president, which would provide another leg to the country's economic recovery.

Discrete years' performance (%), to previous quarter-end:

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust Latin America C Acc GBP	15.2%	-16.1%	-18.1%	23.2%	3.8%
MSCI EM Latin America	22.6%	-7.2%	-16.5%	12.9%	-0.8%
IA Latin America	16.4%	-11.5%	-14.9%	15.4%	-3.3%
Quartile	4	4	4	1	1

***Source: FE Analytics as at 31.12.22.**
****Source: FE Analytics as at 31.12.22. Quartile rankings generated on 07.01.23**

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility. The Fund holds a concentrated portfolio of stocks, if the price of one of these stocks should move significantly, this may have a notable effect on the value of the portfolio.

not a professional investor please consult a regulated financial adviser regarding the suitability of such an investment for you and your personal circumstances. [23/074]